# 2005-2006 Annual Business Plan

## MANDATE

The NSLC has developed, based on its legislated mandate, a new statement of purpose to describe our focus over the coming years.

***Purpose***
Bringing a world of beverage enjoyment to Nova Scotia.

*We aspire to this through our:*

***Vision***
To be recognized as a superb retailer - known for our business performance, customer focus and vibrant shopping experience eliciting the pride and enthusiasm of Nova Scotians.

*Living our Purpose and Vision entails a:*

***Culture***
That encourages innovation and creativity.
That engages employees in achieving success.
That is driven by customer needs.
That demonstrates respect and dignity in all we do.
That is a fun place to work.
That advocates intelligent consumption.

## PLANNING CONTEXT

The NSLC is competing in a retail marketplace that is rapidly changing to meet increasingly sophisticated and demanding consumer needs. Retailers are constantly evolving to provide a more customer sensitive environment in order to maintain and increase earnings. The NSLC is competing directly for a share of the customer's discretionary income. In this changing environment technology, convenience, service and product selection are key to modern retailing.

The NSLC's future success depends on its ability to respond to these realities and provide shoppers with a retailing experience that meets and exceeds their rapidly evolving needs. The long-term earnings growth resulting from focusing on customer expectations will be achieved through on-going investments in all aspects of the business.

*Customer Base*

The population base of Nova Scotia is expected to remain relatively stable without any major increase or decrease in population expected over the period of this business plan. However, there are significant changes occurring within the population of the province that impact current and future business practices of the NSLC. Population shifts,

in particular, impact the delivery of our retail offering: urban/rural shifts and changes to the age of the population. According to Statistics Canada, Nova Scotia's population growth is occurring primarily in the Halifax Regional Municipality and the median age of the population is increasing.

Research also shows that sixty five percent of the Nova Scotia population is of legal age to consumer beverage alcohol, while twenty six percent do not drink.

*Economy*

The provincial government estimates that the Nova Scotia economy will improve slightly in 2005 by 0.6% when compared with 2004 with 2005 real GDP growth expected to be 2.1%. The employment rate is expected to grow by 1.5% in 2005. The government is also projecting retail sales to increase by 4.4% during 2005 for Nova Scotia.

*Labour Relations*

NSLC has three groups of unionized employees each with its own collective agreement. All three groups are represented by the Nova Scotia Government and General Employees Union (NSGEU). Unionized employees include many office staff, all permanent part-time and full-time Store Clerks and Store Managers; as well as most staff in the Distribution Centre. All three collective agreements expired in 2004 and negotiations for new contracts which began in 2004 are ongoing. They are expected to conclude in 2005.

## RETAIL ENVIRONMENT

The retail environment in Nova Scotia, as elsewhere, is undergoing significant change. Consumers are better educated, reflect greater diversity, have higher expectations and understand their shopping alternatives. Retailers are responding by investing in systems, tools and technology to allow them to better understand and measure the drivers of success in this changing retail landscape. Nova Scotians increasingly have greater choice of where and how to spend their discretionary income. The retail sector is undergoing significant consolidation and the Canadian marketplace is seeing increased competition from international retail businesses.

Over the past ten years, there has been a strong trend of US retailers entering the Canadian marketplace. US retailers account for approximately 30% of Canadian retail sales. This shift has caused a retail trend change away from traditional downtown core shopping areas to suburban regional retail "Power Centres" where large US and Canadian retailers such as Costco, Home Depot, Walmart, Chapters,

and Canadian Tire are locating. These Power Centres offer consumers a greater depth of product offerings at a perceived lower cost. This has not only impacted the traditional downtown shopping experience, but has also reduced the consumer draw to smaller community shopping centres.

One of the few Canadian retail sectors not yet facing direct US competition is the grocery business. With one of the two largest grocery retailers headquartered in Nova Scotia, this market in this sector is exceptionally competitive. These strong Canadian retailers have recognized the Power Centre trend and have responded by adjusting their merchandise offerings and by substantially increasing the size of their stores. Most retail Power Centres in Atlantic Canada will be anchored by an Atlantic Superstore or Sobeys location.

In this environment, the NSLC must find ways to improve customer service, increase product variety and convenience in the most cost effective manner possible. This means the NSLC must not only increase product selection, variety and customer service, but that it must locate its stores in areas that are representative of current consumer shopping patterns and markets. The NSLC will continue to pursue locations with grocery stores within the province in response to these challenges.

The co-location of liquor and grocery stores enhances the natural association of food and beverage alcohol pairings with added convenience for the shopper. New stores, or relocating of older stores to these grocery locations allow NSLC to renew its store network in a cost effective way, and to re-image the stores to best meet changing expectations.

The NSLC continues to identify communities and customer segments that are being underserved. Women, as a market with unique buying patterns, continue to be underrepresented as NSLC shoppers; the grocery stores here allow the NSLC better access to this market as up to 80% of the primary decision makers in the grocery store can be women. Also, some smaller communities in remote areas continue to be some driving distance from the closest NSLC store; the NSLC will establish additional Agency Stores for more convenience shopping in these communities in which the operation of a new NSLC retail store cannot be economically supported.

The NSLC and the manufacturers of the products it retails are regularly examining the pricing of products sold, the competitive forces within the industry, and the need to adjust prices for promotional or strategic business reasons.

## BUSINESS FOCUS

*Supply Chain*

The backbone of the NSLC's business is its supply chain requirements. The logistic elements of getting the product from its point of manufacture anywhere in the world to the Halifax Distribution Centre in Bayers Lake and then out to NSLC retail stores, licensees, agency stores and private wine and specialty stores is critical to the organization's success.

*Retail*

Once the product is in Nova Scotia, the NSLC is responsible for retailing beverage alcohol to the consumer. It does so through more than 107 retail stores that range from the traditional NSLC store and the higher-end Port of Wines store to the new NSLC Winebaskets offering a convenient wine-only small format store. The NSLC is constantly examining retail market patterns to ensure that the store network is best designed to meet the constantly evolving needs of the consumer.

A key element to retail success is the knowledge, experience and talents of retail store staff. NSLC employs over 1,200 people in communities across the province and strives to support and enhance their skills to deliver superior customer service in a vibrant retail environment.

*Wholesale*

With the exclusive responsibility in Nova Scotia to acquire and distribute beverage alcohol the NSLC also serves as a wholesaler. The wholesale market makes up approximately 18% of all NSLC revenues. The NSLC's wholesale market involves supplying the province's licensees (restaurants, bars, lounges and hotels licensed to sell beverage alcohol); NSLC Agency Stores; and Private Wine and Specialty Stores (PWSS) with beverage alcohol products.

*Corporate Services*

The NSLC has a number of corporate services that enable the supply chain, retail and wholesale functions to operate efficiently and effectively. These include the choice of products offered; the marketing and promotion of those products; the financial management of the business; meeting the human resource needs of the NSLC; the development and maintenance of the NSLC's facilities and store network; the use of information technology to improve the efficiency of the business and facilitate the shopping experience; and the

transparent communication of the goals of the organization both internally and externally.

## STRATEGIC GOALS

The NSLC has identified six strategic goals to guide its operations during this period:

- **Meet or exceed operating income commitments**
- **Business Process Improvement**
- **Implement Cultural Change**
- **Increased Customer Focus**
- **Introduce new initiatives to deliver on the NSLC's social and economic objectives**
- **Best Practices Crown Corporation Governance**

## PRIORITES FOR 2005-2006

*Goal*

- **Meet or exceed net operating income commitments**

One of the primary responsibilities of the NSLC is to return significant net operating income of the Corporation to our shareholder-the Government of Nova Scotia. In delivering on this aspect of our mission all Nova Scotians benefit through increased resources to fund the programs and services required of government.

*Priority*

- The NSLC will contribute $177.0 million to our shareholder in 2005-2006

*Goal*

- **Business Process Improvement**

With our goal to make the NSLC a modern retail organization the Company will make a significant investment over 5 years ensuring our business processes are efficient and effective. Driving operational efficiency through business process improvement will assist in increasing shareholder return. Information technology and customer research will be used where appropriate as key enablers.

*Priority*

- Review all corporate processes to minimize cost and optimize value to the organization

- A Board approved implementation plan for the NSLC's information technology requirements in support of business process improvements
    - Introduce a new technology based shelf management system
    - Introduce a new point of sale system
    - Launch an intranet site
    - Implement new software for the management of the organization's financial administration and supply chain needs
    - Continue to upgrade the store technology hardware
- Design and introduce a Corporate Scorecard in order to assist in driving strategic effectiveness and operational efficiency

  The Corporate Scorecard will become a primary performance measurement tool for the organization that will translate vision and strategy into operational and actionable objectives. It will consist of simple, relevant financial and non-financial measures balanced up and down as well as across the organization and will incorporate both leading (predict future performance) and lagging (measure value already created) indicators of performance. This measurement tool will promote continual focus on managing strategic initiatives effectively and also provide a means for facilitating efficient and coordinated decision making at all levels of the organization.
- Improve the NSLC's ability to forecast for market changes
- The NSLC will develop a new five year strategic plan for the organization. This plan will be reviewed and revised annually to ensure that it reflects current trends and retail strategies.
- As part of the annual business planning process the NSLC will review the Social Reference Price and its markup structure.

  The Social Reference Price has only changed twice since its introduction in 1990. The NSLC will review the SRP annually in order to ensure we are meeting our legislated mandate on promoting intelligent consumption. In addition, the NSLC markup structure needs to be reviewed annually in order to ensure the NSLC is setting pricing strategies to meet market shifts.
- Supply Chain
    - Supplier metrics- As we integrate our systems we will produce supplier score cards. There will be several measures that will be included in these score cards including: shipments ready on time, accuracy of the

loads, promotional support, accuracy of collaborate forecasts

- Supplier relationships-By partnering with our suppliers we can better anticipate our consumers demand. Suppliers do a significant amount of research that can assist NSLC supply chain managers and category mangers in better forecasting of volume and our consumers would be serviced better.
- Forecast driven-Becoming forecast driven will allow us to improve overall service levels to our customers. Currently the organization bases its purchasing on warehouse draws as compared to consumer draws at the POS system. Changing replenishment to a forecasting model will allow the Supply Chain Managers to accurately anticipate volumes by the stores only drawing out what is required. The new Supply Chain Management systems will enable individual store forecast and in turn rolling up to a total forecast to be incorporated in the execution of purchasing.
- Technology supported-The integration of supply chain technology will enable the Supply Chain Managers and Category Managers to use both historical data and promotional history to more accurately anticipate demand.
- Capacity management-Introduce Supply Chain Management systems that improve warehouse inventory turns and fill rates to the stores. This allows the organization to maximize its assists to product best returns to our stakeholders.

*Goal*

- **Promote Cultural Change**

Perhaps the most critical element of NSLC's transformation to a modern retailer is creating and harnessing cultural change to enable staff to understand and embrace new roles. By changing our culture the NSLC will produce a better shopping experience for customers and increased returns for our shareholder.

*Priority*

- Performance management/metrics
  Through the use of clearly communicated performance targets, for both the organization and individuals; combined with improved performance metrics, NSLC will continue to develop a culture of setting and achieving business targets and recognizing individual and team contributions.

- Sales culture
  As a retailer, NSLC must do more than ensure product is available. Customers have clearly expressed a need for more and better information from staff to help them in making a selection. Providing staff with the tools and confidence to effectively assist customers to make their buying decisions is key to developing a sales culture.
- Product knowledge
  Strong product knowledge is a critical element in the desired corporate culture. In particular, efforts this year will focus on aligning product knowledge training with corporate merchandizing and marketing initiatives.
- Purpose – Vision – Culture
  The NSLC will effectively rollout its new Purpose-Vision-Culture statement in order to ensure all employees understand the direction of the organization and that all decisions are made through this filter. The objective is to provide staff with a clear context in which to make day to day business decisions and to guide customer interaction.
- Performance pay
  The NSLC will extend the concept of performance-based compensation further into the non-union staff group.
- Recruiting/promotions
  This year will see a continued focus on aligning recruitment and selection processes with a clearer articulation of the skills and competencies needed for success in each role. As job requirements and performance expectations evolve, the recruitment and selection process must evolve to meet the organization's needs.

*Goal*

➢ **Increase Customer Focus**

*Priority*

- Research/Customer segments
  The NSLC will segment its customers into distinct groups identifying their needs. This will allow the organization to better match product selection and promotions to the needs of the customer base.
- Marketing
  The NSLC will develop a corporate marketing plan which will be based on customer segmentation research; define the customer experience; set the overall product

category segmentation; and set the promotional focus of the NSLC

- Merchandising
  A new approach to product category management will be designed. It will be based on the NSLC's new corporate marketing plan, and reflect the five year business plan of the organization
- Identity/brand
  The new corporate logo and all its design applications will be rolled out across the entire NSLC network during the year. All advertising and communications will promote the new identity and will be reflected in the in store shopping experience
- Festivals
  NSLC Festivals will be driven by the objectives of the Corporate marketing Plan and organized based on the Category Management Plans
- Wholesale markets(PWSS – Licensees- Agency Stores)
  The NSLC will continue to explore opportunities to support wholesale business through better communication as well as product support and best practice industry training.
- Network Plan
  The NSLC will continue to relocate, re-image and right-size its network of stores to best meet the needs of its customers. Additional small format wine stores ('Winebaskets') will be located in select grocery stores, and the Agency Network will be enlarged to better meet the needs of smaller market areas.
- Training
  Staff development opportunities are focused on providing the knowledge, skills and support mechanisms to allow staff to meet and exceed customer expectations, in particular in the retail environment. Ranging from technical skills training, enhancing product knowledge and sales skills, to leadership skills and financial management, NSLC's training and development efforts are aligned with achieving business results.

*Goal*

- **Introduce new initiatives to deliver on the NSLC's social and economic objectives**

*Priority*

- Develop new advertising strategies to deliver the NSLC's mandate to promote intelligent consumption with a specific focus on summer water activities and the winter Christmas season.
- Target those in the 20 to 30 age group for specific messaging
- Continue to ensure the responsible sale of beverage alcohol in the NSLC's retail outlets including the Check 25 ID program
- Work with law enforcement agencies to drive home the intelligent consumption message
- In conjunction with agencies of government, enhanced the growth of the local beverage alcohol industry by implementing business measures specifically tailored for local producers that allow them to better exploit their natural advantages while remaining fair and transparent to the marketplace at large.

*Goal*

➢ **Establish best practices for the supervision, accountability and strategy of a Crown Corporation.**

*Priority*

- Performance scorecard for the Board as a whole, its committees, individual members and senior staff
- Design and implement a Board member recruitment process for the Minster responsible for the administration of the NSLC
- Review and approve a new set of the organization's policy and procedure manual
- Design and implement a Code of Conduct for the NSLC
- Update the Board's Governance Manual
- Complete an Enterprise Risk Assessment of the NSLC

## Financial Plan

| | Actual | Actual | Projected | Budget | |
|---|---|---|---|---|---|
| | 2002/2003 | 2003/2004 | 2004/2005 | 2005/ 2006 | Change |
| | $ | $ | $ | $ | |
| Spirits | 131,886,383 | 135,605,145 | 137,995,000 | 142,800,000 | 3.5% |
| Wine | 60,925,559 | 69,766,469 | 74,215,000 | 78,665,000 | 6.0% |
| Beer | 206,290,997 | 217,663,830 | 224,275,000 | 233,205,000 | 4.0% |
| Ready To Drink | 13,778,993 | 15,993,285 | 16,050,000 | 15,812,000 | -1.5% |
| Non liquor | 443,364 | 527,500 | 625,000 | 250,000 | -60.0% |
| **Total Gross Sales** | 413,325,297 | 439,556,229 | 453,160,000 | 470,732,000 | 3.9% |
| Less: Discounts | 945,415 | 2,413,000 | 2,400,000 | 2,500,000 | 4.2% |
| **Net Sales** | 412,379,882 | 437,143,229 | 450,760,000 | 468,230,000 | 3.9% |
| Cost of Sales | 202,806,000 | 213,308,000 | 216,900,000 | 225,860,000 | 4.1% |
| **Gross Profit** | 209,574,258 | 223,835,229 | 233,860,000 | 242,370,000 | 3.6% |
| Less: Store Operating Expenses | 36,001,000 | 38,095,000 | 41,400,000 | 42,200,000 | 1.9% |
| **Gross Operating Profit** | 173,572,833 | 185,740,229 | 192,460,000 | 200,170,000 | 4.0% |
| Less: Supply Chain | 4,090,000 | 5,013,000 | 5,275,000 | 5,500,000 | 4.3% |
| Corporate Services | 9,195,000 | 9,857,000 | 13,600,000 | 14,000,000 | 2.9% |
| Other Expenses | 2,878,000 | 4,415,000 | 4,100,000 | 4,200,000 | 2.4% |
| Add: Other Revenue | 4,243,000 | 4,538,000 | 4,600,000 | 5,500,000 | 19.6% |
| **Total Expenses (Excluding Stores)** | 11,920,000 | 14,747,000 | 18,375,000 | 18,200,000 | -1.0% |
| **Operating Income before Depreciation** | 161,652,833 | 170,993,229 | 174,085,000 | 181,970,000 | 4.5% |
| Less: Depreciation | 3,787,000 | 3,200,000 | 3,975,000 | 4,900,000 | 23.3% |
| **Income From Operations** | 157,865,833 | 167,793,229 | 170,110,000 | 177,070,000 | 4.1% |
| **Volume Growth (hectolitres)** | 730,642 | 760,200 | 762,400 | 763,250 | 0.1% |

## Performance Measurement

The NSLC will meet or exceed the following key financial performance measure for the organization:

*Net Income*

| | Actual 2002-2003 | Actual 2003-2004 | Projected 2004-2005 | Budget 2005-2006 |
|---|---|---|---|---|
| **Income From Operations** | 157,865,833 | 167,793,229 | 170,110,000 | 177,070,000 |

## Supporting Operating Initiatives

In managing the business, the NSLC uses the following indicators to ensure maximum shareholder return is achieved while operating a modern retail business.

*Customer Satisfaction Index*

Designed to further enhance our Customer Relationship Management, the NSLC initiated a Customer Satisfaction Index (CSI) in 2003 which measures customer satisfaction levels in 5 critical consumer attitudes including product selection, customer service levels overall retail shopping experience. The CSI is based on 400 customer surveys conducted province wide each quarter measuring the NSLC's overall performance in meeting customer expectations. This is structured using an accepted measure in Customer Value Management as our benchmark.

The NSLC's goal of achieving a 70% satisfaction level in 2004-2005 on our overall CSI based on an accepted World Class Value Management structure for Customer satisfaction was met.

The NSLC will redesign the CSI in order to provide management with more specific information on how to improve the customer experience.

*Operating Expense Ratio*

| ACTUAL | ACTUAL | ACTUAL | PROJECTED | BUDGET |
|---|---|---|---|---|
| 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 |
| 11.9% | 11.6% | 12.1% | 13.3% | 12.9% |

*Net Income Ratio*

| ACTUAL | ACTUAL | ACTUAL | PROJECTED | BUDGET |
|---|---|---|---|---|
| 2001-2002 | 2002-2003 | 2003-2004 | 2004-2005 | 2005-2006 |
| 36.8% | 38.2% | 38.2% | 37.7% | 37.8% |